

A VIEW FROM AFAR: A LOOK AT BC'S FOREST INDUSTRY FROM THE OUTSIDE—ARE WE UNIQUE?

By Jim Girvan



It is easy to get caught up in the complexities of our daily working lives and lose sight of the forest when looking at the trees. At the TLA 75th Annual Convention & Trade Show, one panel, “A View from Afar,” let outsiders share their perspectives on BC’s forest industry, perspectives that will allow us to reflect on just what and how we are doing.

Dr. Clark Binkley has worked on timberland investment for over 40 years, as an academic and as a practitioner having directed forestry investments on every continent in the world except Antarctica. Binkley was the dean of the UBC Faculty of Forestry, managing director and chief investment officer of the Hancock Timber Resource Group and most recently, chief investment officer for GreenWood Resources.

Eric Krume started logging when he was 17 and founded Krume Logging in 1995 near Castle Rock, Washington. In 2004, he formed Summit Attachment and Machinery and has since devel-

oped a number of new and innovative products for the logging sector.

So, is BC special? Do we have the ability to compete in the global forest products markets? Are our issues the same as others? Perhaps.

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When asked does BC’s fibre quality matter in the context of global timber demand and supply, Binkley responded pragmatically. “Basically, there is no old-growth left on private lands in the Pacific Northwest (PNW) and the remaining old growth in BC may provide access to specialty markets and continue to provide advantage until it is exhausted or environmental pressure restricts its use. Without the old-growth advantage, private land investment in plantation management and fertilization in the PNW

may result in better growth than BC giving them the advantage.”

As for the Interior, Binkley believes BC’s forest management is just not up to the global standards as seen in other parts of the world, most notably in the

US South where they are doing much better. The differences in management arise largely because of differences in land tenure—in the US South private ownership means that the landowner reaps 100 per cent of the returns from investments in growing trees. This is not the case in the BC Interior. The US South has seen a 2.5 billion board foot expansion in sawmill capacity with no fibre supply agreements to support them (purely an open market for logs). Soon, the US South will have the best



technology in the world, better than the BC Interior. “The world is awash in wood,” noted Binkley. “There is no global shortage and BC has to compete for customers like everyone else.”

When asked if we in BC are alone in facing high cost pressures, Krume said that to overcome cost pressure we need to become partners again. Relationships have suffered recently to the point where the loggers are upset at the land owners,

the truckers are upset with the loggers, and so on down the line. “We are all in this together,” said Krume. “When the cost of extraction exceeds the trees’ value, it is all over. From my perspective, I need a longer term of contract to justify the investments I need to make to remain efficient and competitive. How can a bank lend you money if you have no proof of how you will pay it back?”

Krume continued when questioned about the relationships between contractors and timberland owners in his region. “Innovation is driven by necessity,” responded Krume. “We don’t need one tool that fits all. We need to specialize and in doing so, be efficient on different types of ground. The relationships with partners in the supply chain drives the potential for this to occur.” Krume went on to explain that the land owner has a fiduciary obligation to the investor to get the wood to market as cheaply as possible. “Contractors who agree to work too cheaply, and a lot of us do, have no one to blame but ourselves. Prices must rise and we [contractors] have to value the service we are offering. The innovations I am doing perhaps allow me to reduce my costs and costs in the system which might mean more for me. But I am assuming all the risk in developing these innovations. In contrast to our situation, in New Zealand, logging contracts are typically for five years which allows the logger to pay for a machine,” said Krume. Calling a spade a spade, Krume said, “Having 40 acres at a time

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in front of me does not help. Some security of work makes it easier to attract and keep people.”

Binkley responded to the issue of relationships by providing perspective on tenure versus land ownership models. He explained that in the Pacific Northwest there is a significant separation of timberland and manufacturing, which has allowed each to independently become efficient and in doing so attract significant new capital. And he agreed that this is similar to some degree with BC private land holdings on the coast. By contrast, however, he sees the BC tenure system as a weak property right. As quoted by Peter Pearse, “Tenure rights are basically a licence to trespass on public land for the purpose of harvesting trees” and, as a result, are not a favourable investment opportunity for private capital.

From Binkley’s perspective, the BC stumpage system results in the government extracting most of the residual value or rent from the tenure. As a result, the tenures are not worth that much. This approach differs sharply from the situation he sees in New Zealand



where the concessions were sold for a one-time-only “bonus bid” along with an annual, predictably adjusted ground rent. The result was quite a lot of new capital flowing into the New Zealand forest sector and the prospect of a “wall of wood” nearly doubling that country’s production in the next decade or two.

Public forest land management in the US is much different than in Canada,

Binkley explained. Forest Service funds are virtually all consumed fighting fires and as a result, they cannot do much else let alone develop and sell timber. Looking forward, President Trump has suggested less of a budget for the Federal Forest Service, so it is more likely that harvests will go down than up.

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One interesting development among progressive environmental groups, Binkley noted, is their seeing a real need for new manufacturing infrastructure to support thinning and other management activities on public forested lands as a means to control the intensity of wildfires. Combined with a desire to restore these lands as a means to prevent fire, sop up carbon, and meet Paris Climate Accord targets, this could be a favourable development

for federal land management in the next decade or two. When Krume was asked about environmental pressures he noted: “If you stand in a clear-cut protesting logging long enough, you will be standing in the forest”.

The softwood lumber dispute perspectives were mixed.

Binkley asked delegates to back up and ask themselves who benefits? As he sees it, a tariff on Canadian lumber basically takes money from US lumber

consumers and gives it to lumber producers in the form of higher lumber prices and, to the US government in the form of tariff revenues. There is an obvious direct benefit to US producers from higher prices and tariff-free access to the US market.

“But here is a dirty little secret: such tariffs may also benefit Canadian producers,” said Binkley. He explained that the benefit to Canadian producers depends on how much of the tariff

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is passed forward as higher prices and how much is passed backwards in the form of higher costs. The split depends on market conditions. But, the thoughtful securities analysts Binkley follows are uniform in believing that the main BC companies benefit from the tariffs and

change in the BC system of stumpage has had no impact on the softwood lumber dispute. One has to wonder why BC did it.”

The issue of skilled labour shortages is a common theme on both sides of the border. Truck drivers are need-

Krume noted that as an industry we have been losing our logging workforce for 20 years. “You have to tailor the work to the people you have and to make the job a better job for the people who are doing it. People say we need more mills in the Pacific Northwest but I can tell you, mills don’t employ a lot of people... logging does,” added Krume.

In his final comments to BC’s coastal loggers, Krume said, for loggers and company managers, self-diagnosis of the problems is essential to getting ahead. “Be open to change—one idea at a time.” Binkley added, “The only sustainable source of wealth is improved productivity and, for our industry, labour productivity is a big part of that.”▲

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not just because they have invested in the US South.

Krume was clear in his views: “From my perspective, BC gets its wood for free and we have to buy ours. Your view might be different.”

Binkley noted: “Overall, the (softwood lumber) trade restriction is a dead weight loss to the US economy and should never have been enacted because the US needs the wood. The evidence of the impacts of the agreement can be seen as boats are now delivering lumber to the USA from New Zealand and Russia at the expense of Canadian lumber. The profound

ed everywhere and Krume’s solution seemed simple. “Truck drivers are a necessity and we are going to be constrained by the lack of them. We need to make the job more attractive which will attract more people to the industry,” said Krume. “Having the mill open longer to receive wood would be a good place to start.”

Binkley added that labour productivity drives wage increases and that without both, you can’t attract skilled people to the sector and you will inevitably go out of business. As a result, substitution of capital for labour substitution is a noticeable trend.

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